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TAGS: ECON EFIN EAID KWBG IS PREF

SUBJECT: PMA, UNRWA AGREE TO CONSOLIDATE CASH REQUESTS,
DISCUSS GAZA'S ECONOMY

Classified By: Classified by Consul General Daniel Rubinstein for reasons 1.4(b) and (d).

¶1. (C) Summary: Palestine Monetary Authority (PMA) Governor Jihad al-Wazir and UNRWA Deputy Director in Gaza Aidan O'Leary agreed to consolidate PA and UN requests to the Government of Israel (GOI) for cash transfers to Gaza. Al-Wazir and O'Leary also discussed Gaza's burgeoning tunnel economy and increased NIS liquidity. O'Leary said UNRWA would consider al-Wazir's suggestion to pay UN salaries in Gaza in New Israeli Shekels (NIS) where possible. End summary.

NIS liquidity improved; USD, JD shortage severe

¶2. (C) ConGenOffs organized a meeting with both al-Wazir and O'Leary on September 15. Al-Wazir said that the availability of NIS in Gaza has significantly improved. Banks have roughly NIS 480 million in vaults in Gaza. USD and Jordanian Dinar (JD) liquidity, however, remains very low. Banks are unable to pay out in the correct denomination for USD and JD deposits, forcing Gazans to convert currencies with money changers at a loss on the informal market. Al-Wazir noted that there are many legitimate uses for USD and JD in Gaza, including UN and university salaries, as well as dowries and real estate purchases. Al-Wazir said that dowries, for example, are traditionally paid in JD because of periods of high inflation of the NIS.

¶3. (C) O'Leary agreed that NIS liquidity has improved, noting that the banks were able to use local stocks to disburse NIS 21 million to UNRWA for its Back To School Program, in which the agency gives NIS 100 to each UNRWA student. O'Leary noted that UNRWA received its latest cash transfer of USD 13.5 million on September 12, bringing the total to USD 120 million since January. Al-Wazir suggested that UN staff often withdraw their entire USD-denominated salary from banks and exchange it for NIS with money changers, in order to benefit from the rate spread that results from the USD shortage. Al-Wazir proposed that UNRWA shift its payments to NIS where possible, in light of the current USD shortage and to avoid profiteering. O'Leary agreed to look into it.

Tunnel Economy Breeds Corruption

¶4. (C) O'Leary and al-Wazir agreed that the "tunnel economy" in Gaza has replaced legitimate trade, to Hamas' benefit, and has created opportunities for corruption, by both Palestinian and Israeli traders. Al-Wazir and O'Leary said they believe that Israeli corruption results in the flooding of surplus Israeli goods into Gaza markets. Some Israeli businessmen noticeably "jump the queue" in obtaining COGAT approval and clearance, they noted. O'Leary added that, in a few cases,

UNRWA shipments have been turned back from Kerem Shalom due to "bad weather," only to find out later that another group of trucks, claiming to hold UN shipments, were allowed to unload at Kerem Shalom. No one seems to be paying attention to distribution of private sector goods inside Gaza, according to O'Leary who noted that 70% of shipments through Kerem Shalom are for the private sector.

Consolidating Cash Requests

¶15. (C) On UNRWA's cash needs, O'Leary and al-Wazir agreed to apply to the GOI jointly for October's cash transfer. UNRWA will provide the PMA with detailed information on its cash needs (USD 20 million and NIS 20 million) and the process through which it has been shipping the cash for the last several months. In early October, the PMA will submit a consolidated request to the Bank of Israel for both PA and UN cash needs in Gaza. O'Leary stressed the importance of getting the cash in time to pay salaries the last Tuesday of each month, noting that UNRWA submits its request at least two weeks prior to when it would need to move the cash.

¶16. (SBU) Note: During Operation Cast Lead in January, the UN began requesting and transporting currency to support salary and hardship payments in Gaza after PMA's cash requests were delayed or denied. The GOI agreed in April to allow the PMA to ship NIS 50 million from the West Bank to Gaza on a monthly basis. The GOI has consistently denied PMA requests to ship USD and JD, and UN requests to ship NIS. End note.

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